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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 001157

SIPDIS

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ENERGY FOR CDAY AND ALOCKWOOD  
NSC FOR DTOMLINSON AND JSHRIER

E.O. 12958: DECL: 01/12/2017  
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)  
SUBJECT: EXXONMOBIL AND CONOCOPHILLIPS DISCUSS FAJA  
NEGOTIATIONS

REF: A. CARACAS 967  
[1](#)B. CARACAS 1030

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (C) SUMMARY: ExxonMobil (XM) and ConocoPhillips (CP) in a series of meetings on June 12 stated the June 26 deadline for negotiations on migrating the four Faja strategic associations as well as the profit sharing agreement projects to PDVSA-controlled joint ventures appear to be firm. Companies will have to decide whether they wish to remain in Venezuela by that date. Statoil and Chevron have decided to stay in Venezuela. The BRV has shown some interest in XM remaining in Venezuela. CP executives stated CP does not have a preconceived notion of whether it will stay or not.  
END SUMMARY

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XM: A VERY SMALL FLICKER OF HOPE  
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[1](#)2. (C) Special Coordinator for Venezuela Deborah McCarthy, accompanied by the Ambassador and Econoffs, met with XM Venezuela President Tim Cutt and Government Relations Manager Carlos Ernesto Rodriguez (strictly protect throughout) on June 12 to discuss the state of the Faja negotiations. Cutt began by stating that he is not sure what the BRV's June 26 deadline for negotiations really means. He added he believed the deadline was a "hard date" for Energy Minister Ramirez. During the course of the meeting, Cutt repeatedly stated his belief that Minister Ramirez wanted to establish which companies were planning to stay in Venezuela by June 26. Cutt stated XM headquarters has shown surprising flexibility in attempting to reach a deal. For example, XM would "swallow hard" and give up international arbitration if the rest of the terms of a deal were adequate.

[1](#)3. (C) Cutt stated the BRV presented XM with a memorandum of

understanding (MOU) last week that basically stated XM agreed to a conversion contract but that details still needed to be worked out. The MOU gave the parties a 30 day extension to work out the additional details. XM rejected the MOU on the grounds that it would lead to XM losing its rights to arbitration. Cutt believed all of the international oil companies (IOCs) received the same MOU. He based his belief on the fact that XM's partner in the La Ceiba field, Petrocanada, received the same MOU as well as the general language in the MOU. XM is working with CP, Total, BP to come up with an acceptable MOU. Cutt stated Chevron and Statoil have made it clear that they are willing to accept the BRV's proposals and are not working with the rest of the companies.

14. (C) Cutt stated XM also has significant problems with the underlying conversion contract. The BRV's current proposal gives it all of the power in making investment decisions. In addition, it does not provide an exit for XM. The contract would also permit the BRV to make ever larger investments that would eventually "invest" XM completely out of Cerro Negro. Cutt stated at a bare minimum XM must have a say in investment decisions as well as the ability to exit the contract. He later stated that XM had to have the ability to exit by selling its stake to a third party at market prices. He added that XM also needed language so that it could not be forced into making major investments.

15. (C) Cutt stated XM will not sign the MOU if it is not significantly modified. In that case, XM will proceed to arbitration. Cutt later added XM wanted an amiable exit but was prepared to go to arbitration. XM would try to make the

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BRV expropriate its investment in order to pave the way for arbitration.

16. (C) Despite the generally pessimistic tone of the meeting, Cutt did point out two bright spots in recent negotiations. First, the BRV and XM are now discussing global assets rather than just the Cerro Negro project. Cutt stated the BRV is interested in some of XM's global assets, such as fields in Argentina. However, he stated valuation still remained a problem. The BRV has offered XM book value minus a USD 35 million discount. The BRV has made it clear that it will not change its mind about using book value for valuing Cerro Negro but has stated it will consider other assets. The BRV has offered to buy all of XM's stake in Cerro Negro at book value but XM declined since it is only a fraction of the project's market value.

17. (C) Energy Vice Minister Bernard Mommer and CVP President Elogio Del Pino's positive responses to XM's proposed business plan for Cerro Negro provided the second positive note. XM's plan calls for an increase in production to over 300,000 barrels per day plus the introduction of new, advanced technology. As a result of the plan, Cutt believes Mommer and Del Pino would like to see XM stay.

18. (C) If XM stayed, it would not have operational control of the Cerro Negro strategic association. Cutt did not believe that XM would make a significant profit if it stayed in a joint venture. However, it could add value to the project by introducing secondary recovery or upgraders in the fields. XM would retain control of these investments if it stayed.

19. (C) When asked about current operations at Cerro Negro, Cutt stated he believed PDVSA could run the operations for six months before it started having problems. He added PDVSA has not ordered any spare parts since the turnover. According to Cutt, Mommer has admitted that PDVSA can't run Cerro Negro on its own.

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CP: PLAYING CARDS CLOSE TO ITS VEST

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¶10. (C) Visiting CP senior executives Randy Limbacher, John Lowe, and Jason Doughty as well as resident CP Latin America President Roy Lyons (strictly protect throughout) paid a call on the Ambassador on June 12 before meeting with the Energy Minister. The executives requested a general briefing from the Ambassador on the political and economic situation in Venezuela. The Ambassador took the opportunity to reiterate Post's commitment to support CP. Limbacher complained about the "nasty tone" the BRV has taken with CP due to its refusal to sign an MOU ceding operational control to PDVSA (Reftels A and B). He stated CP offered operational assistance to PDVSA but was turned down.

¶11. (C) Limbacher stated the BRV was still talking with CP. He said negotiations are strictly driven by political concerns and the BRV left little room to maneuver. CP does not have any preconceived notions on whether it will stay or leave but definitely wants to avoid a long, drawn-out arbitration case. He stated senior level PDVSA interlocutors were extremely stressed out and described PDVSA offices as chaotic. All of the executives agreed that senior BRV and PDVSA officials were ambivalent about CP staying in Venezuela. However, Lyons later noted that some senior officials and working level officials realized that PDVSA needed CP's assistance and presence.

¶12. (C) Special Coordinator McCarthy and Econoffs met with  
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CP Government Affairs Manager Alex Martinez (strictly protect throughout) later the same day. Martinez stated he believes the June 26 deadline is a hard deadline but stated it may be a "little fuzzy." He believes the BRV will require companies to sign something on that date setting out their commitment to stay in Venezuela but that it will give them additional time to negotiate details. He also complained about the BRV and PDVSA's attacks on CP for failing to sign the MOU.

¶13. (C) Martinez also stated CP has offered PDVSA a technical services agreement for the Corocoro project but PDVSA turned it down. According to Martinez, PDVSA is having serious difficulties with the project. He attributed the difficulties to the fact that PDVSA stepped into the middle of the project. Since CP had total operational control, PDVSA did not have any idea what it was getting itself into. CP asked PDVSA pointblank what it needed in order to continue the project but never received a response. Martinez believed it was because PDVSA did not have any idea what it needed.

¶14. (C) Martinez stated the turnover of operational control to PDVSA at Petrozuata and Hamaca went well. Production levels are at full levels. CP left PDVSA with a full set of operational manuals and documents. Petrozuata does not have any expats working at it currently. According to Martinez, 17-18 Chevron expats are still working at Hamaca. PDVSA has trumpeted the fact that production at both facilities increased after it assumed operational control. Martinez stated the only reason production increased was due to the fact that OPEC production cuts were lifted. CP receives monthly reports on Petrozuata and regular reports on Hamaca. However, he stated PDVSA officials will not answer CP's telephone inquiries.

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COMMENT  
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¶15. (C) Based on comments by the XM and CP executives, it appears that the BRV and PDVSA have accepted the fact that they will not have all of the details ironed out on the conversion negotiations by June 26. However, it looks as if the BRV wants two things by that date: a decision on whether the individual companies are staying or leaving and some sort of signed document. Although the BRV is showing a little more flexibility, it clearly wants to have an agreement on its terms. The fact that the proposed MOU only gives the

companies an additional 30 days to deal with a myriad of complicated legal and financial issues indicates to us that the BRV's basic position remains "take it or leave it."

¶16. (SBU) Special Coordinator McCarthy did not clear this cable.

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